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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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**COMMISSIONERS**

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ARIZONA CORPORATION COMMISSION  
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*[Signature]*

IN THE MATTER OF THE APPLICATION OF  
SOUTH CENTRAL UTAH TELEPHONE  
ASSOCIATION, INC., A UTAH NON-PROFIT  
CORPORATION, FOR A HEARING TO  
DETERMINE THE EARNINGS OF THE  
COMPANY, THE FAIR VALUE OF THE  
COMPANY FOR RATEMAKING PURPOSES,  
AND TO INCREASE RESIDENTIAL RATES  
AS NECESSARY TO COMPENSATE FOR  
THE RATE IMPACTS OF THE FCC'S  
USF/ICC TRANSFORMATION ORDER.

DOCKET NO. T-01923A-13-0428

**STAFF'S RESPONSE TO JULY 1, 2014  
PROCEDURAL ORDER**

On December 9, 2013, South Central Utah Telephone Association, Inc. ("South Central Utah Telephone") or the ("Company") filed an application with the Commission to increase residential local service rates to meet the new local service Rate Floor established by Federal Communications Commission ("FCC"). At the time the Company filed its application, the FCC had not yet set the 2014 local Rate Floor, so the Company requested that the Commission approve a basic residential local access line rate of the lesser of \$19.00, or the Rate Floor ultimately set by the FCC. Under the FCC's November 18, 2011 USF/ICC Transformation Order ("Transformation Order"), carriers must report in July of each year, the number of access lines that fall below the floor set by the FCC, for federal USF funding purposes. The carriers lose federal funding on a dollar for dollar basis to the extent that their local service rates fall below the local service Rate Floor set by the FCC.

On March 20, 2014, the FCC issued Public Notice DA 13-384 announcing a new local Rate Floor of \$20.46. An evidentiary hearing was held at the Commission on March 25, 2014, with cross-examination of Company and Staff witnesses. At the hearing, the Company requested that its residential local exchange rates be set at the FCC Rate Floor of \$20.46. The witnesses discussed a motion filed by the United States Telephone Association ("USTA"), the Eastern Rural Telecom Association ("ERTA"), the Independent Telephone & Telecommunications Alliance ("ITTA"),

1 NTCA – The Rural Broadband Association (“NTCA”), the National Exchange Carrier Association  
2 (“NECA”), and WTA – Advocates for Rural Broadband (“WTA”) (collectively “the USTA Motion”)  
3 with the FCC asking for a delay in implementation of the Rate Floor and other proposals to phase-in  
4 the Rate Floor because of the magnitude of the increase and a concern over rate shock. At the March  
5 25, 2014 hearing, the witnesses discussed the impact of this proposal on the Company’s pending  
6 application.

7 The FCC considered the USTA Motion and suggestions provided by commenters at its April  
8 23, 2014 Open Meeting and at that time indicated that it would be delaying implementation of the  
9 new Rate Floor and that the Rate Floor would be phased in over a period of time. The FCC’s Order  
10 was released on June 10, 2014, delaying implementation of the Rate Floor and establishing a phase-in  
11 of the Rate Floor over the next four years.

12 In its July 1, 2014 Procedural Order, the Commission’s Hearing Division seeks revised  
13 substantive and procedural recommendations for how to proceed in this Docket. More specifically,  
14 the Order requests that parties respond to the following questions:

15  
16 Specifically, what rates and time frame for implementation, do the parties now  
17 recommend? Can, or should, the Commission implement the recommended  
18 rates without re-opening the hearing? Given intervening events and any new  
19 recommendations, have these matters been adequately noticed? What are the  
procedural recommendations for addressing future rate increases beyond  
December 1, 2014?

20 Below is Staff’s response to each of the questions posed by the ALJ.

21 **A. THE RATES AND TIME FRAMES FOR IMPLEMENTATION.**

22 Paragraph 80 of the FCC’s Order provides in relevant part as follows:

23 ...[W]e waive the application of section 54.318(b) for lines reported July 1,  
24 2014 with a rate of \$14 or above. Commencing January 2, 2015 (reflecting rates  
25 as of December 1, 2014), and thereafter, through June 30, 2016, we waive  
26 section 54.318(b) to the extent reported lines are less than \$16. For the period  
27 between July 1, 2016, and June 30, 2017, we waive section 54.318(b) to the  
28 extent reported rates are less than \$18, or the 2016 rate floor, whichever is  
lower. For the period between July 1, 2017, and June 30, 2018, we waive  
section 54.318(b) to the extent reported rates are less than \$20, or the 2017 rate  
floor, whichever is lower. We believe that this four-year transition should  
provide sufficient time for carriers and state commissions to determine whether

1 and how to make adjustments, without unreasonable effects on carries and  
2 consumers.

3 Staff recommends that the Commission adopt the following residential access line rates and  
4 schedule for implementation for South Central Utah Telephone Association, Inc. The new residential  
5 access line rates should become effective on the dates listed below:

6 December 1, 2014	\$16
7 June 1, 2016	\$18, or the 2016 rate floor set by the FCC, whichever is lower
8 June 1, 2017	\$20, or the 2017 rate floor set by the FCC, whichever is lower

9 **B. SHOULD THE HEARING BE RE-OPENED?**

10 Staff does not believe that it is necessary to reopen the hearing in this matter. However, Staff  
11 leaves this issue to the sound discretion of the Administrative Law Judge ("ALJ"). At the time that  
12 the original hearing was held, many of these issues had not yet been resolved. Staff raised all of the  
13 various options that were being considered by the FCC and those options were discussed at the  
14 hearing.

15 The final Rate Floor did not increase beyond that originally set by the FCC. A phase-in of  
16 rates and an extension of time in implementation of the rates was discussed at the hearing. However,  
17 the ALJ should require the Company to file late-filed exhibits consisting of the various schedules  
18 containing the calculations using the new step increases adopted by the FCC. This information,  
19 together with the evidence already taken at the hearing, should provide sufficient evidence to  
20 establish that the various step increases and final local exchange Rate Floor of \$20.00 are just and  
21 reasonable.

22 **C. HAS THIS MATTER BEEN ADEQUATELY NOTICED?**

23 At the time the original notice was sent to customers, the FCC's new Rate Floor was not  
24 known. Thus, the original notice sent to customers informed them that Arizona Telephone was  
25 requesting authority to increase its residential monthly local service rates from \$14.00 to the lower of  
26 \$19.00 or the FCC's approved residential Rate Floor. Accordingly, Staff believes that this matter has  
27 been adequately noticed to residential customers for a rate up to \$19.00. Within thirty days of the  
28 effective date of any Order addressing these issues, the Company should be required to re-notice  
customers informing them of the new Rate Floor of \$20.00 to be implemented in 2017. The

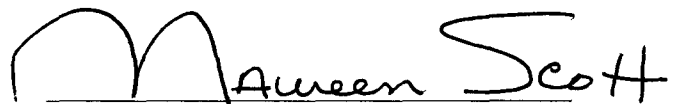
1 Company should also include in that notice the various step increases provided for in the FCC's  
2 recent Order and their effective dates. The notice should explain that if the new FCC surveys in 2016  
3 and 2017 result in Rate Floors that are lower than the step increases contained in the FCC Order, the  
4 step increases will also be lower.

5 In addition, before each of the various rate phase-ins, the Company should be required to send  
6 another notice to customers informing them of the step up in rates, at least 30 days prior to the  
7 effective date of the increase in rates.

8 **D. PROCEDURAL RECOMMENDATIONS FOR ADDRESSING FUTURE RATE**  
9 **INCREASES BEYOND DECEMBER 1, 2014.**

10 The Company should be required to notice customers at least 30 days before the effective date  
11 of each of the rate steps provided for in the FCC's Order. With respect to future rate increases  
12 beyond the \$20.00 Rate Floor adopted by the FCC, the Company should be required to file a full rate  
13 case.

14 RESPECTFULLY SUBMITTED this 31<sup>st</sup> day of July, 2014.

15  
16 

17 Maureen A. Scott, Senior Staff Counsel  
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24 Original and thirteen (13) copies  
25 of the foregoing filed this  
31<sup>st</sup> day of July 2014 with:

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27 Arizona Corporation Commission  
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1 Copy of the foregoing emailed/mailed  
2 this 31<sup>st</sup> day of July 2014 to:

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